



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

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DAVID E. JANSSEN
Chief Administrative Officer

Board of Supervisors
GLORIA MOLINA
First District

YVONNE B. BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

November 16, 2006

To: Mayor Michael D. Antonovich
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

From: David E. Janssen
Chief Administrative Officer

SACRAMENTO UPDATE

Legislative Analyst's Fiscal Outlook for California

On November 15, 2006, the Legislative Analyst's Office (LAO) released its **California Fiscal Outlook LAO Projections – FY 2006-07 through 2011-12**. The LAO projects a \$5.5 billion operating shortfall for FY 2007-08. Over the five year forecast period, the LAO anticipates that, under existing law, the State budget expenditures will continue to exceed revenues absent corrective actions. In the current year, year-end reserves are expected to increase by approximately \$1 billion, to \$3.1 billion. This carryover could be used on a one-time basis to reduce the projected shortfall in FY 2007-08 to \$2.4 billion, however, should that occur, there would be no reserves to help mitigate budget shortfalls in future years.

In the later years of the forecast, the LAO predicts that revenues and expenditures will more closely match so that, in the absence of corrective action, expenditures will exceed revenues by approximately \$1.2 billion by FY 2011-12. This relatively low shortfall in the out years is primarily due to lower payments for the retirement of Deficit Reduction Bonds after FY 2009-10.

Since the 2006 Budget Act was adopted, revenues are anticipated to increase by \$474 million through FY 2006-07, an overall .5 percent increase. On the expenditure side, current year costs are estimated to be only \$73 million less than assumed in the Budget Act.

The LAO cautions that it is unlikely that the State will continue to experience high rates of revenue growth beyond the current year. A sharp decline in the real estate market and spiking energy costs could slow the State's economy. Last year, a surge in State revenues provided an unexpected windfall of \$9 billion. This allowed the State to insulate itself from its structural shortfall in the current year, however, in FY 2007-08, revenues are not expected to provide similar relief and the State may have to consider program reductions of approximately \$2.4 billion in order to balance its budget.

The LAO recommends a number of strategies to consider when constructing the FY 2007-08 budget. They are:

- Specify program savings/reductions that limit funding. This could be applied to State grant programs such as COPS/Juvenile Justice, Vertical Prosecution or Spousal Abuse.
- Suspend or reduce cost of living adjustments for programs such as Medi-Cal, K-12 schools, or the courts.
- Redirect funding from non-General Fund areas where possible using special funds or reimbursements.
- Enhanced tax compliance, fees and targeted revenue increases such as closing tax loopholes, reducing tax credits, creating or increasing fees to reflect actual costs of providing services, or increasing taxes.
- Reduce payments to retire deficit financing bonds from approximately \$3 billion to the minimum obligation of \$900 million a year.

The **Fiscal Outlook** is available on the LAO's website at www.lao.ca.gov

Pursuit of County Position on a Budget Item

Last year, the County received \$5.7 million as a partial payment of an \$11.4 million State obligation for the Health Care Workforce Development Program. This funding was part of the Section 1115 Medicaid Waiver agreement between the State and Federal government in 2000 in which the County would contribute \$13.3 million and the State, \$26.6 million. The County met its full obligation and the State has now made

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payments totaling \$20.9 million. **Therefore, our Sacramento advocates will pursue inclusion of the remaining \$5.7 million in the Governor's Proposed Budget for FY 2007-08.**

We will continue to keep you advised.

DEJ:GK
MAL:DW:hg

c: All Department Heads
Legislative Strategist
Local 660
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations
Buddy Program Participants